MIDWEST DAIRY COALITION

July 17, 2018

The Honorable Pat Roberts
Chairman
Senate Agriculture Committee
Washington D.C. 20510

The Honorable Mike Conaway
Chairman
House Agriculture Committee
Washington D.C. 20515

The Honorable Debbie Stabenow
Ranking Member
Senate Agriculture Committee
Washington D.C. 20510

The Honorable Collin Peterson
Ranking Member
House Agriculture Committee
Washington D.C. 20515

Dear Farm Bill Conference Committee Leaders:

As you begin your work to reconcile the differences between the House and Senate versions of the Farm Bill, I am writing on behalf of the members of the Midwest Dairy Coalition to provide our recommendations.

The new dairy safety net program created in the 2014 Farm Bill, the Margin Protection Program (MPP), proved to be very ineffective in helping dairy farmers weather the storm of low prices. Learning from that lesson, Congress made important improvements to the MPP in the Bipartisan Budget Act of 2018. For those farmers who enrolled in the revised program for 2018, those initial MPP improvements have been helpful in managing the low milk prices. However, as helpful as those improvements have been, further improvements are necessary to give dairy farmers the tools necessary to manage risk of increasingly volatile and unpredictable milk prices and feed costs.

In that context, we are very pleased that both the House and Senate bills make further improvements to the dairy safety net program. While there are a few significant differences between the dairy provisions of the two bills, the similarities are greater than the differences.

Our Midwest Dairy Coalition recommendations for Conference negotiations are based on the goal of establishing a safety net program that is affordable, effective and flexible for dairy farmers. With that goal in mind, we make the following recommendations.

Buy-Up Coverage Levels

One of our top priorities for the Farm Bill has been increasing the top coverage level from the current $8 level to $9. Therefore, we are very pleased that both bills include provisions to increase buy-up coverage options for $8.50 and $9.00.

We also support the Senate provisions to establish catastrophic coverage levels at $5 for both Tier I and II production levels.

Buy-Up Premium Levels

Both the House and Senate bills reduce the cost of premiums for Tier I production (up to 5 million pounds), which we strongly support.

The Senate bill takes a further step by establishing an additional 50 percent premium discount for a participating farmer with up to 2 million pounds of production history, or a 25 percent discount for farmers with up to 10 million pounds of production history. In general, we support the goal of this Senate provision, which would make the program more affordable for the large majority of farmers. We are concerned, however, that the complexity of this provision may be confusing. If there is a way to achieve the goal of reducing premiums in a simpler manner, within the existing CBO scoring constraints, we would support that effort.

Safety Net Flexibility for Farmers

The Bipartisan Budget Act (BBA) of 2018 made some initial steps to providing dairy farmers with more flexibility in risk management options. Some of the provisions removed barriers to the creation of new risk management options for dairy, such as the provision removing the $20 million annual subsidy cap on RMA livestock insurance products. Other provisions made improvements to the MPP to make that program a more viable safety net, such as the provision to calculate MPP payments on a monthly basis, instead of the previous approach of using a 2-month average. We are pleased that both the House and Senate versions of the Farm Bill maintain those important improvements made through the BBA earlier this year.

We are very concerned about the House Farm Bill provision [Section 1401(g)(1)] that would require participating farmers to lock in their buy-up and percentage production coverage decisions for the full 5 years of the Farm Bill. This provision would greatly limit farmers flexibility in making annual risk management decisions and imposes a restriction that does not apply for other USDA or private insurance products. As such, we fear that this provision would actually discourage dairy farmers from participating in the program, which defeats the purpose of the many improvements achieved in the two versions of the Farm Bill. We urge that this provision be excluded from the final Farm Bill text.

We do, however, support the House provision to allow dairy farmers to participate in both the new Dairy Risk Management Program (the successor program to the MPP) and the Livestock Gross Margin-Dairy (LGM-Dairy) program at the same time, as long the two programs do not cover the same milk at the same time. For instance, a farmer could participate in the new Dairy Risk Management Program for up to 5 million pounds of production, and then enroll the rest of their milk in the LGM- Dairy Program. If there are other ways to achieve this goal through administrative revisions to LGM-Dairy or industry submittal of a modified LGM-Dairy proposal, we would be very open to those discussions.

Another provision that helps improve flexibility for farmers is the provision, included in both the House and Senate bill, to reduce the minimum production coverage levels from 25 percent to 5 percent. Since the premiums for the MPP and its successor program are structured to be lower for all farmers' first 5 million pounds of production, this provision ensures that all scales of operations have the flexibility to utilize those benefits.

Refunding Premiums for the Failed MPP program

We support the Senate provision that refunds the MPP premiums paid by participating farmers from 2014-17, after subtracting the payouts received. This will go a long way to restore trust of farmers, by having Congress acknowledge the errors made in the 2014 that undermined the effectiveness of the program.

Gathering Information for Future Improvements in Feed Cost Calculations

One of the major problems with the MPP provisions of the 2014 Farm Bill was that Congress made last-minute changes to the MPP feed cost formula in order to reduce the CBO budget score. In doing so, the program was no longer an effective safety net. We recognize that the CBO scoring process has made it challenging to fix the feed cost formulas. However, in the long run it would be very helpful to revisit the feed formulas to make them more reflective of actual national average feed costs. Therefore, we support:

- Section 1401(a) of the House bill to require the Secretary to send to Congress a report evaluating the extent to which the average cost of feed used by a dairy operation to produce a hundredweight of milk is representative of actual dairy feed costs;
- Section 1401(b) of the House bill requiring a report detailing the costs incurred by dairy operations in the use of corn silage as feed; and,
- Section 1401(c) of the House bill requiring the National Agricultural Statistics Service to revise monthly price survey reports to include prices for high-quality alfalfa hay in the top five milk producing States.

It is our hope that this information will lead to future improvements in the feed cost formula for the MPP successor program.

Dairy Business Innovation

We also support the Senate provision (Section 12519) establishing regional initiatives to spur innovation in dairy businesses, to help add more value to the milk farmers produce and expand uses for milk to address oversupply and depressed milk prices. The provision will help foster the development of new and innovative dairy products and modernize existing dairy plants.

Sequester Reductions to Safety Net Payouts

The annual budget sequester reductions made to MPP payouts have been a source of great frustration for dairy farmers participating in the MPP program. When farmers choose their coverage levels and pay their premiums, they rightfully expect the program to payout out fully when those payouts are triggered by milk and feed market prices. We realize the budget law that established the sequester process is government wide and must be addressed outside of the Farm Bill process. However, we would greatly appreciate a clear statement by conferees about the need to remove sequester payout reductions for the MPP successor program.

We look forward to working with you in support of the successful enactment of a new 5-year Farm Bill, with a strong dairy subtitle, by the September 30th deadline. After nearly four years of low milk prices, and more low prices predicted as a result of impacts of the deepening trade war, it is crucial that the dairy safety net improvements are set in place as soon as possible.

Sincerely,

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